

CLEARINGHOUSE

# MEDICAID QUALITY CONTROL

## Administration and Objectives Section 1000

DEPARTMENT OF HEALTH, EDUCATION & WELFARE  
HEALTH CARE FINANCING ADMINISTRATION  
MEDICAID BUREAU  
Division of Quality Control

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## 1100 INTRODUCTION

Medicaid was signed into law in July 1965. Since then Congress has appropriated funds each year from tax revenues for use by HEW to share with States in the cost of Medicaid. The same law which authorizes Medicaid also specifies the uses to which these funds are to be put and the types of beneficiaries who are entitled to receive services.

The cost of the Medicaid program has grown dramatically since its early days. From a cost in 1967 of around \$200 million the program has grown almost a hundred times to over \$18 billion in FY '78. During the same period the number of beneficiaries has grown from about one and a half million individuals to the present level of 23 million. This growth has guaranteed financial access to the health care system for many poor Americans. It has made it possible for these individuals to receive health care services which they otherwise might have had to do without.

Along side these many valuable social benefits of the Medicaid program there have also been several problems. Most prominent among these is that management controls have not kept pace with this rapid growth. As a result, there are many areas in the Medicaid program in which there is inadequate control resulting in improper or inefficient use of funds appropriated to Medicaid. For example, it is now widely acknowledged that very large sums of Medicaid funds are being lost through payments for medical services for ineligible recipients, losses due to unrecovered third party liability and claims payment errors.

In fiscal year 1976 alone, approximately \$1.1 billion in erroneous Federal and State payments were made for ineligible beneficiaries. In addition, an estimated \$600 million was lost in unrecovered third party liability; and, claims processing errors wasted another \$200 million.

These large losses resulted from faulty quality controls. Medicaid managers in each State did not have sufficient information to monitor their programs properly. Determining the eligibility of all applicants correctly became extremely difficult if not impossible. Lack of information and the absence of effective State systems also contributed to losses through unrecovered third party insurance and through claims processing errors. In short, all programs needed stronger management controls.

To fill that need, the Medicaid Quality Control (MQC) System was revised to add a review for third-party liability and claims processing errors. The revised system was developed and tested over the past years and has proven to be an effective management tool in helping administrators identify where funds are being lost and in taking steps to correct the problem.

This is the primary objective of the revised system: to measure, identify, and eliminate or reduce dollar losses.

MQC will start to accomplish that goal by more than quadrupling the number of sample cases monitored for errors--going from the present 17,500 to an estimated 78,000. The increase will be accomplished by integrating the MQC sample cases with those of Aid to Families with Dependent Children and Supplementary Security Income programs. The consolidated sample will minimize the need for additional staff for MQC. The revised MQC system will give each State data which is more current and accurate and which will provide a better basis for corrective action. Savings are expected to average at least \$10.00 for every dollar spent for MQC and corrective action.

MQC is being implemented now, with Federal technical assistance to States in developing and installing the new error measurement and reduction system.

This section is the first of six parts of the MQC Manual which will detail the system's operation. The diagram on the next page graphically depicts the overall MQC system.

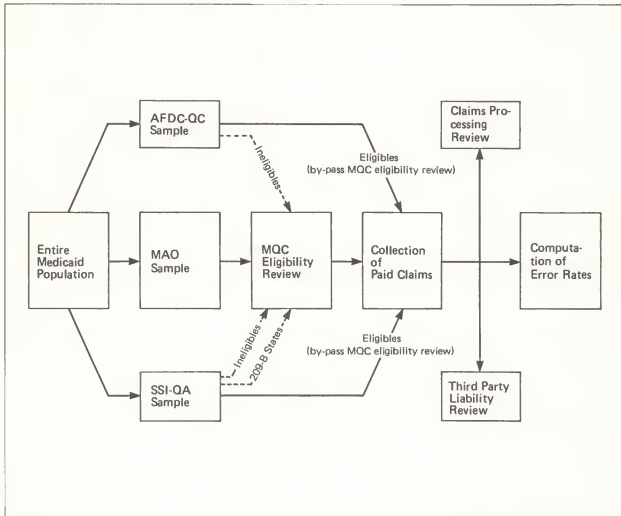


Exhibit 1100-1

**MEDICAID QUALITY CONTROL PROCESS**



1200 ADMINISTRATION OF MEDICAID  
QUALITY CONTROL

Critical to achieving the objectives of the new Medicaid Quality Control system is dedicated, sound State management, especially in positioning and staffing of the MQC unit within the State agency.

1210 Organization

The staff responsible for developing, directing, and evaluating MQC should be organizationally located in such a way that its members can report the results of the system directly to management. However, because of its responsibility for reviewing Medicaid operations, the staff should be separated physically and functionally from operating units, including eligibility policy, third party liability recovery, and claims processing.

If a State agency cannot establish an independent MQC unit, the arrangements for maintaining objectivity and independence should be clearly documented and forwarded to the HCFA Regional Office for concurrence.

By maintaining objectivity in MQC, the findings should provide Medicaid management in each State with accurate, reliable, and timely information to help determine whether policies are being carried out properly and the program is operating at maximum efficiency. MQC findings should be supplemented by other administrative and management reviews.

It is essential that management staff participate in all corrective action planning.

1211 Staffing

Medicaid Quality Control units should be staffed to keep the review process current within established reporting dates and at a quality level to ensure valid MQC findings. Recommended qualifications for QC staff are: 1) for MQC eligibility reviewers, experience equal to firstline supervisors of Medicaid eligibility or assistance-payment workers, or as an AFDC QC reviewer; 2) for CP/TPL reviewers, prior experience in a claims processing unit, provider information unit, or a third party recovery unit; and 3) for MQC supervisors, prior supervisory experience in other QC, claims processing or third party recovery units, or prior experience as an AFDC QC or MQC reviewer.

The number of reviewers and supervisors required for effective QC reviews depends upon such variables as sample size, travel requirements, and complexity of State Medicaid requirements and operations. It is estimated that eight to twelve MQC eligibility reviews and 107 CP/TPP reviews may be completed by a reviewer in a month. A ratio of not less than one supervisor for six reviewers is recommended.

Statistical staff must be qualified by experience to select and manage case samples, process completed schedules, supervise tabulation, and prepare accurate and timely statistical summaries and analyses. Close coordination must be maintained between the State agency's research and statistical staff and the MQC unit. Competent clerical support of MQC is very essential for accurate, timely and efficient accomplishment of the MQC effort.

#### 1220 Federal MQC State Plan Requirements

A State Title XIX plan must meet the requirements set by the Health Care Financing Administration for operating a Medicaid Quality Control system. In addition, Federal regulations specify that the State agency submit copies of its State plan, the sampling plan and periodic data reports.

#### 1221 State Plan Requirements

A State plan under Title XIX of the Social Security Act should provide for Medicaid Quality Control in accordance with Federal specifications (42 CFR 450.25).

The State agency's MQC plan must provide for operating the MQC system in accordance with the policies, sampling methodology, review procedures and reporting forms and requirements specified in Quality Control Manuals issued by the Health Care Financing Administration (HCFA).

To document its reports, the State agency will conduct field investigations, including personal interviews in each active case sample to the extent necessary. The sampling periods will be six months in duration, from October through March and from April through September.

The State agency will submit reports to HCFA in the form and at the time specified by the Administration. The reports will include 1) a description of the State's sampling plan; 2) a monthly report on eligibility reviews completed for all cases in the active case sample; 3) a monthly report on payment reviews completed for sample cases; and 4) a summary report on eligibility findings

and payment error findings for all cases in the six-month sample. Other data and reports may be requested from time to time by HCFA for submission by the State agencies.

The State agency should provide authorized HEW staff with all State records and all records of MQC reviews to which the State has access. Additionally, the State agency will take appropriate action to correct any eligibility, third party liability and claims processing errors found in the sample cases. The State agency will also take appropriate administrative action to prevent or reduce the incidence of such errors. By July 31 of each year, the State agency will submit to HCFA a report on its error analysis and a corrective action plan.

Finally, Federal requirements specify that all activities under the Medicaid Quality Control program must be performed in a manner consistent with 42 CFR 206.10 (a) (10) concerning the rights of the beneficiary.

#### 1222 Contents of Required State Submissions

The State agency will submit to the Health Care Financing Administration, in accordance with Federal instructions:

1. A copy of the State's sampling plan,
2. Periodic reports on MQC findings, and
3. An annual description of the State's comprehensive plan for analysis of and corrective action on the findings of the Quality Control system.

Required submissions will be forwarded to the Health Care Financing Administration Regional Office, in accordance with established procedures. These procedures are in the MQC manuals.

- A. Sampling Plan. To achieve MQC objectives, the planning, selection, and control of samples should provide a reliable basis for measuring the proportion of cases with errors due to beneficiary ineligibility or incorrect liability, or claims processing or third party liability errors.
- B. Periodic Data Reports. Periodic data reports based on MQC findings will be prepared and submitted to HCFA by the State agency, in accordance with Section 4000.

- C. Description of Plan for Analysis and Corrective Action. All State Medicaid agencies shall submit a comprehensive plan to HCFA for analysis of and corrective action on the findings of MQC. This corrective action plan is to be submitted annually and should describe in narrative form: the major concentration of errors, the basic causes of those errors, the corrective action planned or taken to reduce the errors, and the results anticipated or realized.

The annual corrective action plan should include the current status of the corrective action process at the time the report is prepared and summarize the results of actions taken since the submission of the last report.

1223 Maintenance of Current State Plan

When major changes occur in any of the processes or the administrative arrangements described in the State plan, a revised plan covering such changes should be submitted to the HCFA Regional Office.

## 1300 COMPONENTS OF THE MEDICAID QUALITY CONTROL SYSTEM

The Medicaid Quality Control System consists of a number of distinct, yet related components. The following is a description of each component, accompanied by a chart highlighting their intrarelationshihs. The tasks listed under each component need not be performed by the same unit of the State agency. The State administrator should assign responsibilities for the performance of specific tasks and arrange adequate staffing so all tasks are carried out effectively and promptly.

### 1301 Sample Selection

MQC sample cases should be selected each month according to the specifications listed in Section 2000: MQC Sampling. The minimum required number of completed reviews from each State is specified for a six month period. The size of the sample selected will be approximately equal in each month. The recommended selection method is either a simple random or systematic random method. Case identifiers should be transmitted to the QC unit for review.

### 1302 Review Process

MQC reviews of sample cases cover three important functions of Medicaid control: eligibility, claims processing and third party liability.

The eligibility review documents the eligibility of beneficiaries in sample cases. Documentation is obtained through case record reviews and field investigations. States that have opted to do an independent sample must conduct full MQC investigations on every SSI case in the sample. States with more restrictive Medicaid eligibility must verify that beneficiaries meet the more stringent requirements.

During case record reviews, specific facts are collected about the circumstances of case members. When a field investigation is required, it includes a personal interview with the beneficiaries, or someone acting on their behalf, and contacts with other sources to verify the information. The information gathered through these activities is used to make a MQC determination concerning the eligibility status of each case as of the review month.

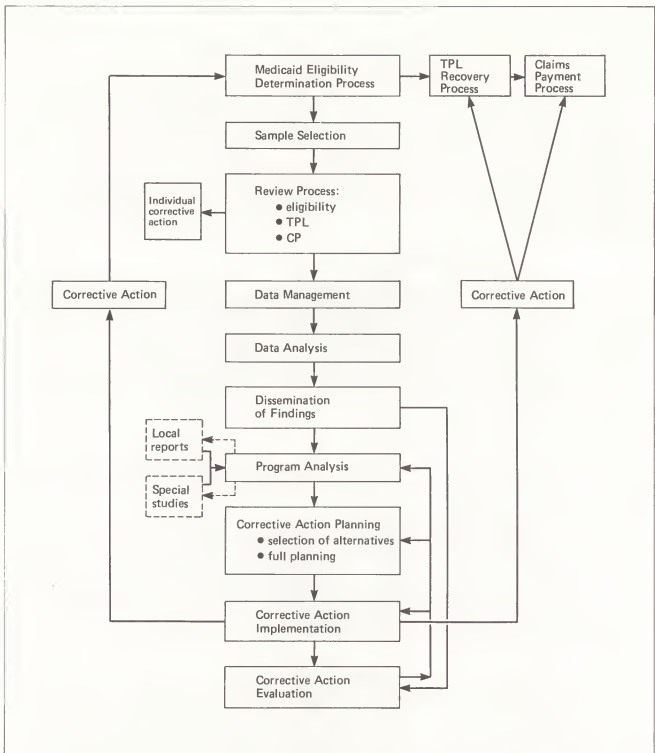


Exhibit 1300 -1

MODEL STATE QUALITY CONTROL SYSTEM

In its reviews of claims processing, the MQC staff should examine all paid claims for conformance with established State paid claims policies. The third party liability review may involve beneficiary interviews plus information from collateral sources.

The review findings are used to determine the dollars spent in error for each operational area of Medicaid.

#### 1303 Individual Corrective Action

Correction of case status is a well established and integral part of the ongoing State supervision of its operating units.

MQC is responsible for referring individual sample cases found to be in error to the appropriate State unit for action and follow-up after the TPL review has been completed. The MQC unit should provide the local agency with information that identifies third party resources or beneficiaries unwilling to cooperate or who could not be located. In addition, appropriate agency units should be notified of questionable beneficiary and/or provider actions that could indicate fraud or abuse.

#### 1304 Data Management

Data management consists of ordering, handling, and processing data collected in the review process. This involves keeping track of reviews that have and have not been completed, ensuring accurate and consistent data and preparing monthly status reports, statistical tables for Federal reports and additional tabulations, as needed, to facilitate data analysis.

#### 1305 Data Analysis

The purpose of MQC data analysis is to provide clear and concise presentations of MQC findings for planning and evaluating corrective actions. This involves careful screening of MQC data to identify clusters of errors and their causes that can be corrected by specific action, and to provide estimates of unduplicated dollar error rates for each of the three Medicaid program components: eligibility, third party liability recovery, and claims processing. In addition, data analysis involves the preparation of clear and concise summaries and explanations of MQC findings for other State and Federal parties and units.

### 1306 Dissemination of Findings

MQC findings are disseminated after the data has been analyzed to ensure that appropriate staff receives the MQC information at timely intervals. It involves determining the specific information requirements and supplying this information to administrative and program staff, as well as local agencies and other interested parties, such as State legislatures, other State agencies or the general public.

### 1307 Program Analysis

Program analysis uses the analyzed MQC findings as well as other relevant information to identify causes of errors in eligibility, claims processing and third party liability. Often, this involves selecting a particular concentration or type of error for further analysis. In addition, other data may be used to identify alternative hypotheses on the sources of errors and from which to select the most probable hypothesis. The final step in program analysis is the preparation of reports on information and facts. Then data analysis findings, program analysis findings, and other relevant information are combined for corrective action planning.

### 1308 Corrective Action Planning

This activity identifies, evaluates, and selects ways to eliminate or reduce errors in each program process. Corrective actions are designed to make changes in agency policies, procedures or structure that will prevent errors from recurring in the future. Corrective actions that require major modifications in agency programs, policies, or procedures may take substantial deployment of resources and lead time for implementation. Other corrective actions may be short range in nature, but they must undergo the same process of planning, development and implementation.

Corrective action planning should be coordinated and integrated to the extent feasible with corrective action planning in AFDC-QC. Some actions may be applicable to all programs.

1309 Corrective Action Implementation

Corrective action implementation of the MQC system represents the point at which the State agency translates all the preceding information, analyses and decisions into action. The implementation process includes assignment of responsibility for specific tasks, tracking of task completion and measurement of progress.

1310 Corrective Action Evaluation

This activity analyzes whether the implemented corrective action has eliminated or reduced the error rates and misspent dollars in the areas of eligibility and liability determinations, claims processing or third party liability.



## 1400 MQC AND CORRECTIVE ACTION

Medicaid Quality Control is a management tool for State Title XIX agency administrators. It provides information on which to base corrective action which will reduce the number of errors that result in misspent dollars.

### 1410 Corrective Action Process

The complete process of quality control corrective action (CA) consists of several natural groupings of activities and related management decisions.

It begins with program analysis, which involves a review and assessment of Medicaid quality control results, special studies findings and other relevant information to determine the basic causes of errors in each program component.

The second step is corrective action planning. This phase involves the selection of alternatives and full planning. In selecting alternatives, it is necessary to identify the actions that would eliminate or reduce identified causes of error and to determine which actions are feasible. For each feasible action, an estimate of its most probable effectiveness or benefit should be made and a set of corrective action alternatives selected for additional analysis and planning.

Full corrective action planning requires a thorough cost/benefit study of corrective action alternatives, so a full corrective action plan can be developed. The final phase is a projection of the anticipated effects of each corrective action.

The planning phase of corrective action is followed by corrective action implementation. The implementation phase includes developing a detailed design of system changes, identifying specific tasks to be performed, and assigning responsibility for each task. In addition, a schedule for the completion of each task should be developed to measure progress.

Once the selected action(s) is implemented, it is necessary to determine whether the action succeeded in reducing the amount of case errors and the amount of dollars misspent. This phase of the process is corrective action evaluation. Corrective action evaluation involves keeping track of which type or types of errors each corrective action addressed and monitoring the

incidence of these types of errors. The evaluation also includes reporting discrepancies in the anticipated and actual effects of specific corrective actions.

The structure of each phase in activities and management decisions is summarized by the accompanying exhibit, entitled The Four Phases of Corrective Action. The exhibit outlines the intrarelationships of the decisions made by the Executive Panel relative to supporting staff activities for each phase. It also shows that primary activities performed by the panel in each of the phases are essentially those of management review.

For example, in Program Analysis, the panel's primary activity is to review MQC findings and other information to identify causes of error to be investigated further. The related activity of staff (or individual members of the panel, where appropriate) is to obtain additional information needed by the panel to make this decision.

During the full planning study, the role of the panel involves a review of the full corrective action plans to select those for implementation. This decision, however, is made only after a comprehensive study of the proposed corrective action has been performed by staff.

Throughout the first two phases, the decisions of the panel narrow down the number of alternative corrective actions because of resource limitations of the agency or other important constraints. In each phase the agency should commit sufficient staff and administration only to accomplish the work required to make the next decision.

#### 1420 Federal MQC Corrective Action Plan Requirements

To meet the Federal requirements of 45 CFR 250.25, the State Title XIX agency must prepare and submit to HCFA a comprehensive plan for corrective action based on MQC findings.

The State agency should prepare the corrective action plan in three major sections:

- o Identification of Errors and Causes;
- o Planned Corrective Action;
- o Evaluation of Results of Planned Corrective Action Previously Reported.

Exhibit 1400-1

**THE FOUR PHASES OF CORRECTIVE ACTION**

| PHASE                                                                                                                                                            | MAJOR PANEL MANAGEMENT DECISIONS                                                                                                                                                                      | PRIMARY ACTIVITIES                                                                                                               |                                                                                                                                                                                                                                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                  |                                                                                                                                                                                                       | Panel                                                                                                                            | Staff or Member of Panel                                                                                                                                                                                                             |
| <b>1. PROGRAM ANALYSIS</b>                                                                                                                                       | <ul style="list-style-type: none"> <li>• Identify causes for error conditions</li> </ul>                                                                                                              | <ul style="list-style-type: none"> <li>• Review MQC findings and other information</li> </ul>                                    | <ul style="list-style-type: none"> <li>• Obtain additional information as needed for analysis</li> </ul>                                                                                                                             |
| <b>2. CORRECTIVE ACTION PLANNING:</b> <ul style="list-style-type: none"> <li>a. Selection of alternatives</li> <li>b. Full corrective action planning</li> </ul> | <ul style="list-style-type: none"> <li>• Select specific corrective action alternatives for further study</li> <li>• Choose corrective action for implementation and assign responsibility</li> </ul> | <ul style="list-style-type: none"> <li>• Review analysis of alternatives</li> <li>• Review full plan</li> </ul>                  | <ul style="list-style-type: none"> <li>• Perform benefit analysis of alternatives</li> <li>• Study present process, outline proposed process, determine costs, benefits, and implementation schedule of corrective action</li> </ul> |
| <b>3. CORRECTIVE ACTION IMPLEMENTATION</b>                                                                                                                       | <ul style="list-style-type: none"> <li>• Proceed with execution of corrective action</li> </ul>                                                                                                       | <ul style="list-style-type: none"> <li>• Review detailed operational design</li> <li>• Monitor implementation process</li> </ul> | <ul style="list-style-type: none"> <li>• Develop detailed design of corrective action such as policy manual, materials, forms, instructions, and task schedule implementation</li> </ul>                                             |
| <b>4. CORRECTIVE ACTION EVALUATION</b>                                                                                                                           | <ul style="list-style-type: none"> <li>• Continue, modify, or terminate the operational corrective action</li> </ul>                                                                                  | <ul style="list-style-type: none"> <li>• Review MQC findings and evaluation analysis</li> </ul>                                  | <ul style="list-style-type: none"> <li>• Prepare evaluation reports as needed</li> </ul>                                                                                                                                             |

The section dealing with the identification of errors and causes should summarize MQC's latest six-month statistical results and analyze the major concentrations of errors by type, elements of eligibility, claims processing, third party liability, geographic location, and other appropriate factors. It should report the results of any special studies used to obtain additional information on the identification of errors and related causes. Finally, this section should include a statement of the cause of each major concentration of errors.

Section two of the State's corrective action plan should describe corrective actions planned or taken. This should include a description of the corrective action selected for each of the identified causes of error and the overall implementation schedule for each action showing the major tasks to be performed. In addition, the specific dates should be listed for the completion of key tasks, along with tasks and milestones for all agency and administrative components of the State that are involved in corrective actions.

Anticipated reductions in case errors and in dollars misspent due to errors in eligibility, claims processing and third party liability recovery should be identified for each corrective action. The anticipated cost and time schedule of the corrective action should be included.

Finally, this section should describe the proposed method of evaluating corrective action effectiveness and the source and method of assembling and evaluating data.



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